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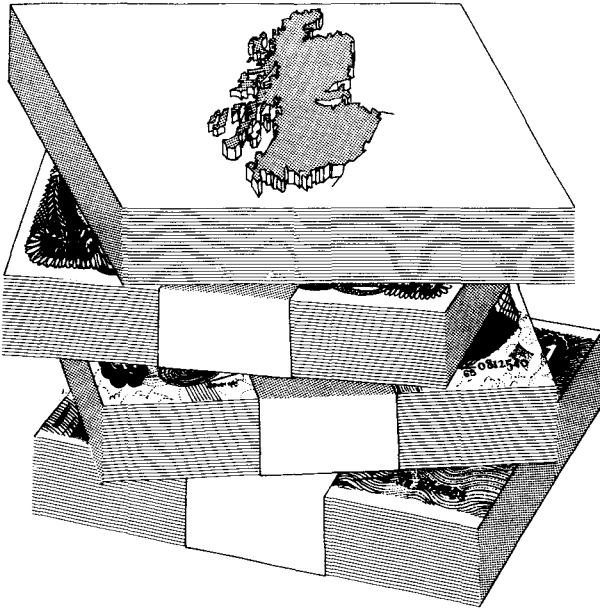
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The Scottish Economy

Indicators of Economic Activity

PRODUCTION



Excluding Petroleum and Natural Gas, the index of industrial production for Scotland in the fourth quarter of 1981 is estimated at 88.4 (1975 = 100) an increase of 0.7% on the previous quarter. Over the same period the index in the UK declined slightly from 91.1 to 90.7. In Scotland the major contributor to the increase in production was the Gas, Electricity and Water sector, where a dramatic 16% rise took place between the third and fourth quarters of 1981. The corresponding increase in the UK was less marked at 5% which helps to explain the different trend in the overall index between Scotland and the UK as a whole over this period. It should be noted that the increase in production in the Gas, Electricity and Water sector strongly reflects the cold weather conditions, which were also likely to have had an

adverse effect on output elsewhere, particularly construction and mining and quarrying which both experienced a 4% fall in Scotland.

Comparing 1981 with 1980, output declined by 5.8% in Scotland and 6.7% in the UK. Thus, while the index level is still lower in Scotland than in the UK, the rate of decline of industrial production has been slower in Scotland compared with the UK as a whole.

Figures available for the UK for the first half of 1982 show a further reduction in industrial production (excluding MLH 104) to 89.6 in June. Although the Scottish figures are not yet available it is likely that Scottish output levels will reflect this trend.

The respondents of the July 1982 CBI Industrial Trends Survey would not have been aware of the half percentage point reduction in the banks base rates on 14 July or of the cut in the building societies mortgage rate of 1.5% on 5 August and the increasing speculation about further cuts in the banks base rates.

The July survey is extremely gloomy in comparison with the April survey which indicated that while there would be no significant recovery in the economy, the period of rapid decline was over and only a small decline in activity levels were to be expected. The results of the July survey point to a significant decline in business confidence over the last few months. A balance of 23% of firms were less optimistic about the general business situation, whereas in the April survey a balance of 2% of firms were more optimistic. This bleak outlook is reflected in depressed capital expenditure plans; a net 36% of respondents expect to authorise less capital expenditure on building and a net 31% expect to invest less on plant and machinery over the next twelve months. The main reasons given for any investment intentions are to increase efficiency (71%) and for replacement (40%), with only 12% of firms investing to increase capacity. The major factors likely to limit capital expenditure authorisations over the next twelve months are reported to be uncertainty about demand (51%), inadequate net return on investment (30%) and shortage of internal finance (21%). Whereas in previous surveys uncertainties about demand was the only main limiting factor. It appears from the July survey that investments are becoming less profitable and firms are more restrained by their financial circumstances.

The percentage of firms working below capacity has increased from 71% to 75% since the last survey, bringing below capacity working almost back to the worst recorded levels in Scotland.

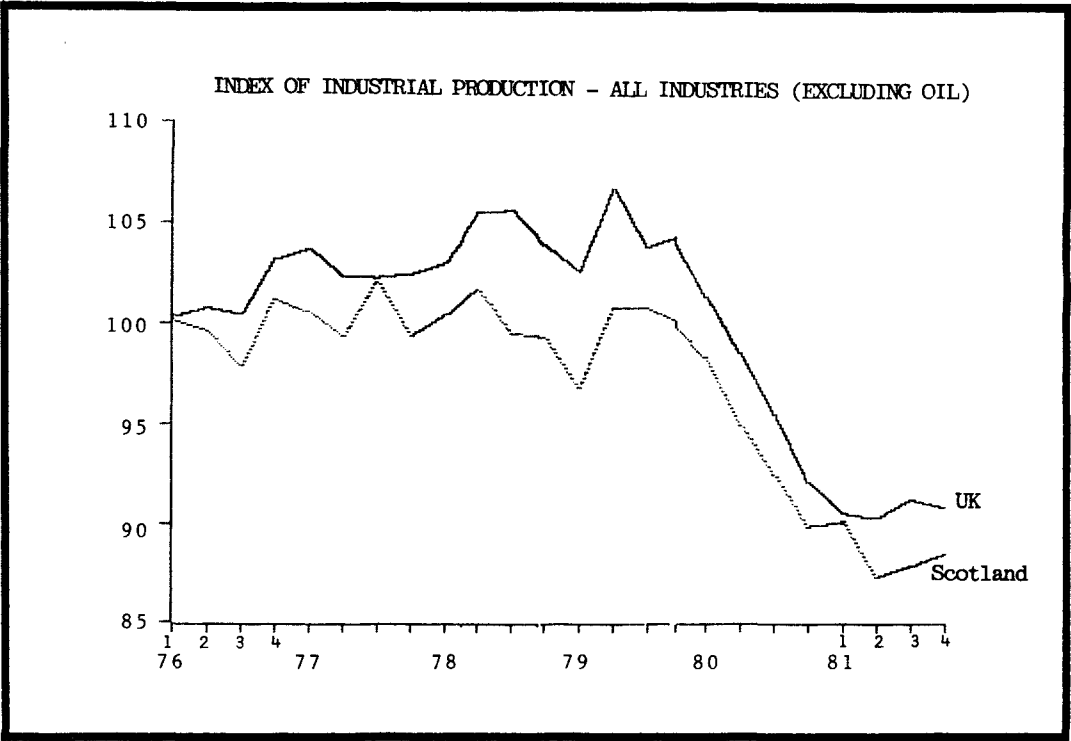
The results of the April survey indicated that a net 4% of firms expected lower output volumes over the second quarter of 1982. However the July survey reports that a net 17% of firms experienced lower output over this period and that a further decline in output is expected by a balance of 14% of firms. The lack of orders or sales remains the factor most likely to limit future output levels.

The volume of new orders over the second quarter, as reported in the July survey, was also much lower than expected in April. In fact a net 24% of firms received less new orders and a net 15% of firms expect the volume of new orders to decline over the third quarter of 1982. Present order books are reported to be normal for 37% of firms and below normal for 57%.

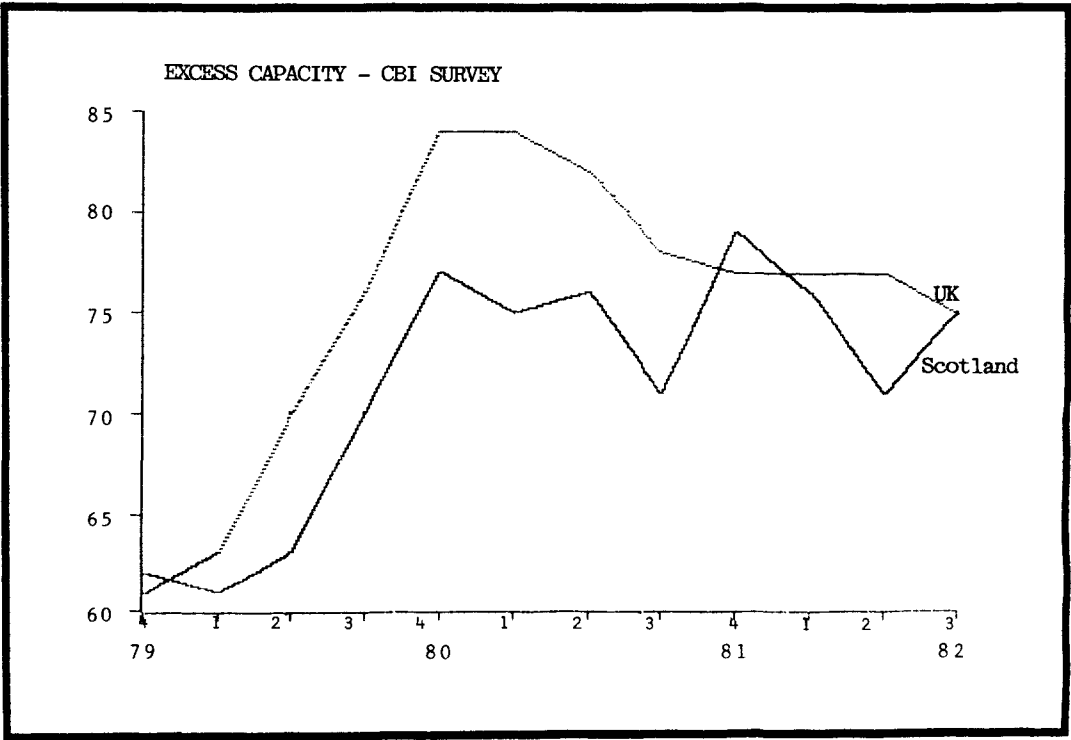
Stocks of raw materials, work in progress and finished goods have all declined markedly over the past four months and further large reductions are expected. Probably reflecting this, the balance of firms reporting that their finished goods stocks were more than adequate fell to 11% compared to 18% in April.

The only encouraging sign in the July survey is that increases in the average costs per unit of output appear to be slowing down and price rises are becoming less widespread.

However the outlook with regard to exports is also significantly more gloomy. While 49% of firms remain unchanged in their views in export prospects since four months ago, a net 45% are less optimistic, representing the greatest decline in export optimism recorded since the very large negative balance of July 1980. Present export order books are normal for



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

20% of exporters and below normal for 79%. The volume of new export orders are down for a net 57% of exporters and are expected to decline further for a net 38%. Among the factors expected to limit firms' ability to obtain export orders over the coming four months, political and economic conditions abroad is by far the most widespread category with 73% of respondents citing this factor. This is the highest recorded figure since the question was first introduced in 1968. Prices as compared with overseas competitors is quoted as a likely constraint by 33% of firms.

Employment prospects have continued to deteriorate according to the July survey. A balance of 44% of firms reported a decline in employment levels, suggesting that overall manufacturing employment fell markedly during the second quarter of 1982. A balance of 45% expect further falls over the next four months, compared to 37% in April and 22% in January.

COMPANY FORMATIONS AND DISSOLUTIONS

Company formations rose to 1,156 in the second quarter of 1982, an increase of 88 over the previous historically high level of the first quarter. The number of dissolutions recorded declined by 113 to 426.

BANK ADVANCES

Total advances to UK residents by the Scottish Clearing Banks, as of 19 May 1982 stood at £5,150m, an increase of £260m (5.3%) over the previous quarter. Increased advances were mainly absorbed by agriculture (+ £24m), property companies (+ £22m) the services sector (+ £111m) and the personal sector (+£151m). The manufacturing sector borrowed £39m less during the quarter to mid-May than in the previous one. The main industry changes in this sector were food, drink and tobacco (- £13m), chemicals and allied industries (- £33m) and other manufacturing (+ £11m). The figures show an increase in the rate of growth of total advances by Scottish Clearing Banks.

CONSTRUCTION

The value (current price) of new orders received by contractors was £229.8m, compared with £231.4m in the previous quarter, representing an increase in both current and real terms. However the value of public sector orders remained unchanged at £149m suggesting a decrease in the real volume of construction orders. On the other hand the private sector which experienced a particularly marked decline in new orders in the fourth quarter of 1981 recovered considerably in the first quarter of 1982. The value of new orders almost doubled; from £82m to £151m, and was distributed over new housing, the industrial and commercial sectors. The recent reduction in the mortgage rate should be of some help to construction activity although other factors such as high levels of unemployment and falling real incomes may act as a constraint.

Industrial Performance

AGRICULTURE

The recently published DAFS report on Scottish agriculture estimates that in 1981 the value of Scottish gross agricultural output was £1,069.9m, an increase of 11.7% over 1980. The volume of gross agricultural output (at constant 1975 prices) is estimated to have increased by 1% between 1980 and 1981. The value of output of most of the main commodities, including cattle, sheep, milk, crops and vegetables, increased, but there was a decline in the value of output in the poultrymeat, eggs and fruit sectors. After five years of decline, 1981 produced an increase of £59m in farming income to £84.5m, but this was insufficient to restore real incomes to 1978 levels. DAFS results show that the dairy sector enjoyed a considerable increase in net income, and smaller increases in net income were experienced in the sheep and cattle farming sectors. However lowground sheep and cattle farms suffered a fall in net income, as did cropping farms.

The EEC Commission's recent decision to tighten the intervention quality standards for barley directly affects growers in Scotland. To be accepted for intervention in the coming season, barley will have to satisfy a minimum specific weight requirement of 64 kilograms/hundred litres, against the previous 63 kilograms/hundred litres. Growers in Scotland, and in the north of England have experienced difficulty in satisfying the specific weight requirement in the past. Barley offered at the old minimum will still be accepted for intervention but producers will lose about £1.10 on each tonne.

FISHING

Total landings by UK vessels in Scotland in the first quarter of 1982 were 57,130 tonnes, worth £27.25m. This represents a rise in volume of 18.3% compared with the same period last year and an encouraging 22% increase in the value of the catch. Against 1981, the average price per tonne of cod, whiting and saithe has risen, by 16.6%, 1.5% and 7.5% respectively, but haddock prices fell by an average 11.7%.

The west coast herring fishery reopened at the end of July, and Britain's vessels have been allocated 32,000 of the 56,000 tonnes to be caught this year. It is expected that the chaos of last year's reopening, when much of the catch was sold as fish meal, will be avoided as the season has been fully anticipated this year. However, the British share of 57% of the catch is judged to be inadequate for the needs of the UK fleet, especially for the purse - seine vessels, which depend on the herring and mackerel fisheries for viable fishing.

The current negotiations for the achievement of a Common Fisheries Policy have been viewed with cautious optimism. There is now some degree of consensus over the fundamental issues, including access rights and the share-out of the EEC catch, but there are difficulties over the details of policy which have yet to be resolved. In Britain's case, the 35.5% share of the seven main species proposed by the Commission seems unacceptably low, and the Scottish fishing industry strongly rejects it. Denmark is opposed to the whole concept of fish quotas, preferring the establishment of an EEC

ceiling under which individuals are able to fish as much as they can. No agreement was reached before Denmark assumed Presidency of the Community.

OIL AND GAS

Production of oil in the North Sea rose to its highest monthly rate, averaging 2.1m b/d in May. It exceeds consumption by nearly a third and if, as forecast, the latter continues to fall there will be a considerable export surplus during the mid-1980s.

Although exploration activity has been at its highest level for seven years, the absence of new development plans over the last one and a half years has had a serious effect on oil related industries - notably the platform yards. Earlier in the year a number of proposals were postponed by major companies. They were concerned about the viability of their investments in the light of uncertainty about depletion policies, the level of taxation and oil prices.

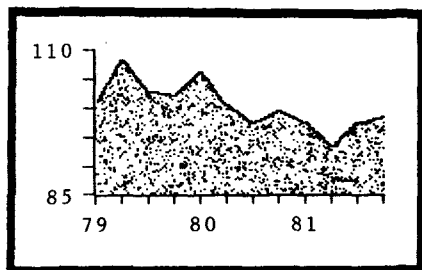
Over the last few months a number of events may have had an effect on company strategy. It is hoped that the inclusion of many deep water blocks in the recent eighth round of exploration licences will stimulate deep water techniques which could be applicable outside the North Sea. In response to a request for clarification on depletion policy, the Energy Secretary replied that the Department will not impose controls until at least the end of 1984. A further five tax changes have been proposed by the government with the intention of reducing the tax liability on marginal fields.

BNOC has now been split. Oil trading will remain in public ownership and the production and exploration sector will trade under the name of Britoil and it is intended to sell 51% of the stock and seek a stock market quotation in November.

World oil prices have become firmer and BNOC has raised its price by \$2.50 a barrel to \$33.50. In August, after a two year delay, Britoil submitted a development plan for the Clyde field worth £1bn. Mindful of the dearth of orders in oil related industries it is thought the Department of Energy will approve the plan fairly soon. A formal application for the development of the North Alwyn field is also forecast to be imminent. Platform yards are either reducing employment already or in danger of running out of work by the end of the year and must welcome the opportunity to bid for contracts following these developments. However a recent BNOC order for the Beatrice field went to a Swedish firm and to attract orders British companies have to remain competitive.

As part of a series of alternatives to the now defunct £2.7bn gas gathering scheme, Shell and Esso have proposed linking the Fulmar field and a possible recent discovery in the same area to St Fergus.

FOOD, DRINK AND TOBACCO



Output in the Scottish sector rose by 1% in the fourth quarter of 1981 to an index level of 98. Total production in 1981 was 4% lower than in 1980, a relatively worse performance than that of the UK where output declined by 2%. In the July CBI survey of industrial trends 96% of respondents expect the general business climate to neither worsen nor improve, a viewpoint they have sustained for the past year. 61% of respondents are working below a satisfactory rate of

operation, and 42% expect that employment in the industry will continue to fall in coming months.

Falling demand for their products has made it necessary for Rowntree Mackintosh to reduce the capacity of their Edinburgh factory. The proposed reorganisation will entail losses of between 250 and 300 jobs by next year, but it is hoped that much of this will be achieved by voluntary redundancies.

Halls of Broxburn, the meat processing company, have expanded their productive capacity with a £3m abattoir in West Lothian. The new facility comes into operation this year, and will allow the company to seek new markets at home and on the continent.

WHISKY

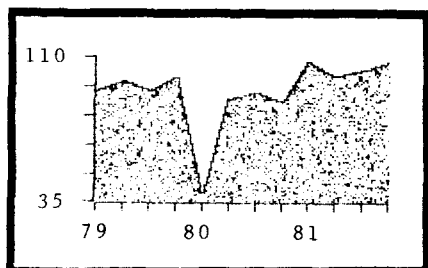
Total production of whisky in the first quarter of 1982 was 59,960 thousand litres of pure alcohol. This is 24.9% lower than the previous quarter's production and 15.9% below the level of the first quarter of 1981.

Total exports of whisky in the first three months of this year were 61,254 thousand litres, worth £201.6m. Compared with the figures for 1980, this represents a decrease in exports of 7% but an increase in value of 5.3%. The indications are that exports are improving relative to 1980 due in part to increased purchasing in anticipation of price rises.

This summer the industry's traditional silent season has involved extended closures of up to three months. However, for the leading brands of single malts, which are enjoying sales growth, the close-down period has been for only six weeks or less.

The industry is undertaking a campaign to revive flagging sales in Japan. The public relations exercise will last for three years and will cost £150,000 in the first year. Although whisky sales to Japan remain an important source of revenue, the volume of sales has been in decline, and so the industry is making an effort to improve its share of the Japanese drinks market.

METAL MANUFACTURE



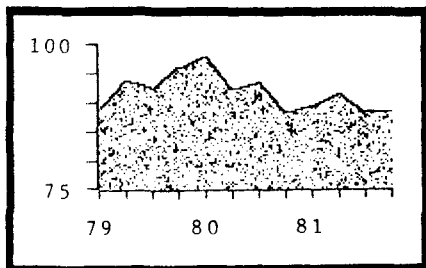
Output from metal manufacture continued to rise during the final quarter of 1981. The index for 1981 shows that the recovery made after the strike in early 1980 was sustained and, at 106, is higher than in 1979 when it stood at 95. This is in contrast to the index for manufacturing overall and to the UK metals output figure which recorded a fall over the same period. Since then, however, the British Aluminium smelter at Invergordon has closed and this will be reflected in future output figures.

During 1982 there appears to have been a deterioration in business confidence. In the CBI Survey for July 61% of respondents felt less optimistic about the general business situation compared with April when 91% felt there had been no change and 2% felt less optimistic. Not unexpectedly there was a rise in concern about quota and import licence restrictions on the ability to obtain exports.

The negotiated settlement to the longstanding US steel dispute, which restricts European steel exports to 5.8% of the US market for three years, has been condemned by the main US steel companies. This opposition could jeopardise the future of the limited agreement. In spite of the depressed demand for steel products in the UK and overseas, British Steel's corporate plan for the next three years still envisages a trading profit by March 1983. The Corporation plans to close one of the three blast furnaces at Ravenscraig, although it will be held on stand-by for a limited period. They also propose to reduce manning by 320 as part of this review of operations.

The Invergordon smelter was kept open on a care and maintenance basis for the first six months of this year. As no buyer has been found the plant has finally closed. The outlook for British Aluminium's rolling mill at Falkirk is also uncertain and a survival plan, involving wage reductions, has been put to the workforce. The historic Carron Company of Falkirk has called in the receivers. This puts at risk 700 jobs in Falkirk, 100 elsewhere in Scotland and 400 in England. It is hoped that some of the jobs will be saved if a buyer is found for the ironworks.

ENGINEERING AND ALLIED INDUSTRIES

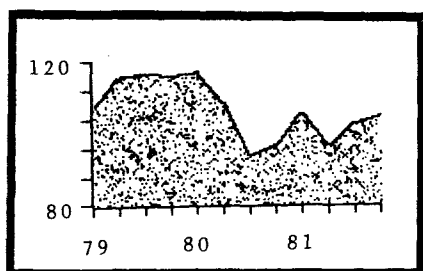


There was no change in engineering production over the fourth quarter of 1981. The annual index for 1981 fell from the previous year and electrical engineering output failed to grow for the first time since 1975. The CBI Industrial Trends Survey in July reported a further decline in optimism within the industry.

After six months of uncertainty John Brown is to go ahead with supplying 21 gas turbines, worth £104m, for the Siberian pipeline contract. The UK government has formally ordered the company to ignore the American ban and John Brown will supply the first six turbines later this month. The company is confident that it can obtain the crucial rotors for the remaining turbines without damaging its relations with General Electric - the makers.

A Peterhead factory which produces transmission units for heavy equipment is threatened with closure and the consequent loss of 350 jobs. The owners, General Motors, are ready to listen to proposals which may safeguard employment, although their present intention is that the plant be sold when production is phased out. Philips of Hamilton have announced further cuts of 110 jobs over the next year. There have been no new developments in the electronics industry although the NEC plant at Livingston has been completed.

CHEMICALS, COAL AND PETROLEUM



Scottish output rose in the fourth quarter of 1981 by 2%, to an index level of 104. Production in the year was 2% lower than in 1980, a relatively better position than that of the majority of industrial sectors. In the July CBI survey, overall opinion on the general business situation changed little over the past months - 94% of respondents report no change in their expectations compared with four months ago. 96% state that they are producing at less

than satisfactory levels, compared with 58% in the previous survey, although 38% report that their stocks of finished goods are less than adequate.

The Coal Board's £80m plan to exploit reserves beneath Musselburgh Bay has been postponed indefinitely, but the Board will undertake a £6m investment at the nearby Monktonhall colliery. The Musselburgh project has been under consideration since 1977, and the decision to shelve it may have been influenced by low returns on investment experienced at other collieries, and by the prospect of reduced demand for coal from the SSEB, the Coal Board's biggest customer.

A new £10m chemicals plant was opened in the East End of Glasgow in May. The factory, owned by Norit (UK) will produce about 10,000 tonnes of activated carbon per year, for use in foodstuff and chemical purification. The new development will protect the jobs of the company's existing employees in Glasgow.

In June, BP and ICI announced rationalisation plans, including large cuts in capacity and the exchange of assets, in an effort to revive their UK petrochemicals operations. BP's petrochemicals complex at Grangemouth was guaranteed a secure future by the company's decision to proceed with a project to convert the plant to ethane feedstocks, supplied by pipeline from Moss Morran. A factor in the decision to undertake the Grangemouth project was the prospect of a more favourable tax treatment for ethane relative to

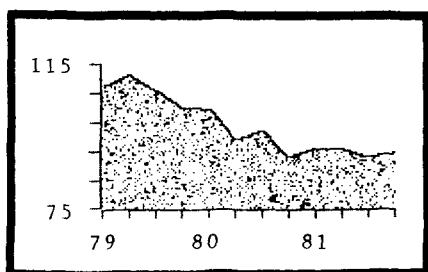
the taxation on naphtha, the existing feedstock. ICI are currently suing the government over the tax changes in the Finance Bill, on the grounds that its UK rivals are being offered tax concessions on ethane which amount to an unfair competitive advantage. It remains to be seen what repercussions this action will have.

SHIPBUILDING AND VEHICLES

British Shipbuilders have announced reduced trading losses of £19.8 for the year ending March 1982 - well within the government target of £25m. They aim to reduce the deficit to within £10m in 1982/83 as part of their three year programme to achieve profitability by 1983/84

In Scotland, Yarrows increased profits to £8.5m and Hall Russell also returned a small profit. Govan Shipbuilders halved losses to £6m while at Scott Lithgow, Ferguson-Ailsa and Henry Robb losses increased substantially - in part due to restructuring. Productivity at Scott Lithgow has improved since the new productivity agreement was introduced, but they have been having considerable difficulties making the transition from traditional shipbuilding to offshore work. The orders for BP are now running between 9 months and a year behind schedule and they need a new order before the end of the year to ensure continuity of employment for the current workforce. At present there is a healthy order book at Govan but they are aware of the vulnerability of depending on the bulk carrier market (recently fairly buoyant but forecast to fall in the near future). Consequently they are tendering for other vessels and emphasising a greater technology input. They recently obtained a Canadian order for three ships for the Great Lakes. Yarrows have already secured a design contract for a type 23 frigate and expect future orders as the Navy replaces warships lost in the Falklands.

TEXTILES, LEATHER AND CLOTHING



Production in the Scottish sector rose by 1% in the fourth quarter of 1981. Annual figures show that the level of production in 1981 was 6% lower than in 1980, the fourth successive year of declining output for this sector. The performance of the UK in 1981 was relatively worse, with output declining by 10%. Response to the July CBI survey indicates a pessimistic outlook in the industry. On balance, 44% of respondents are less optimistic about their general business situation compared

to 1% in the April survey. 67% state that their total orders are below normal, while 51% are operating below a satisfactory rate of output. Over half of the respondents expect that employment in the sector will continue to fall in coming months.

Further redundancies in Scottish textile industries are imminent. The closure of a jute-spinning mill and merger of the jute-yarn interests of two firms will lead to the loss of 300 jobs in Dundee. The Scottish jute industry, already seriously depleted, may be further threatened by the EEC decision to remove import controls on jute-yarns, which takes effect from the end of next year. Bonar Textiles are to close their weaving factory at Forfar from October. This closure will mean a loss of 260 jobs.

Stoddard, the carpet manufacturers, are to make 370 workers redundant in the autumn. Cost-cutting measures have been made necessary by low demand and by the impact of cheap imports. Redundancies are to be implemented at the company's spinning mill in Glasgow, which will close, and also at Elderslie, Eskbank and Cumnock.

**BRICKS, POTTERY,
CEMENT AND GLASS**

Scottish output in the fourth quarter of 1981 rose by 1% to an index level of 71. For 1981 as a whole, production was 11% down on the previous year and substantially below the output levels of preceding years.

United Glass Containers are to make 190 workers redundant at their Glasgow factory. These job losses, representing half of the plant's workforce, have been made necessary by falling demand for bottles, in turn largely attributed to the declining demand from the whisky sector.

A Leven factory may lose its specialised glass-lining process, with the loss of at least 400 jobs. Sohio, an American multinational, intend to transfer the glass-lining operation, used in the production of glassed-steel containers, from Leven to another plant in West Germany if their takeover bid for Henry Balfour Ltd is successful. The workforce together with local and regional councils, feel that the entire factory may close if this bid succeeds.

**PAPER, PRINTING
AND PUBLISHING**

Scottish production fell by 4% in the fourth quarter of 1981 to an index level of 94, its worst performance of recent years. Output in 1981 as a whole was 5% lower than the 1980 level, and 13.5% below the 1980 level. UK output also fell by 5% in 1981, as compared with 1980.

Employment and Unemployment

The most recent estimates of employment in Scotland for March 1982, are shown in Table 1, along with comparable figures for England and Wales.

**TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND
AND IN ENGLAND AND WALES (000'S)**

SCOTLAND	TOTAL	MALES	FEMALES	FEMALE/ MALE RATIO	SCOTTISH EMPLOYMENT AS A % OF GB EMPLOYMENT
Mar 1979	2,048	1,177	970	0.74	9.25
June 1979	2,077	1,188	889	0.75	9.31
Sept 1979	2,078	1,188	890	0.75	9.30
Dec 1979	2,057	1,181	876	0.74	9.19
Mar 1980	2,030	1,165	864	0.74	9.21
June 1980	2,036	1,168	869	0.74	9.25
Sept 1980	2,013	1,154	858	0.74	9.27
Dec 1980	1,980	1,107	823	0.74	9.28
Mar 1981	1,929	1,136	845	0.74	9.26
June 1981	1,931	1,101	830	0.75	9.32
Sept 1981	1,912	1,089	824	0.76	9.29
Dec 1981	1,884	1,067	816	0.76	9.25
Mar 1982	1,853	1,051	801	0.76	9.23

ENGLAND AND WALES

Mar 1979	20,083	11,803	8,280	0.70
June 1979	20,232	11,848	8,384	0.71
Sept 1979	20,277	11,901	8,376	0.70
Dec 1979	20,316	11,851	8,465	0.71
Mar 1980	20,002	11,699	8,304	0.71
June 1980	19,972	11,663	8,309	0.71
Sept 1980	19,713	11,524	8,190	0.71
Dec 1970	19,358	11,259	8,098	0.72
Mar 1981	18,913	11,015	7,898	0.72
June 1981	18,791	10,902	7,889	0.72
Sept 1981	18,677	10,838	7,838	0.72
Dec 1981	18,488	10,671	7,818	0.73
Mar 1982	18,233	10,528	7,705	0.73

Source: Department of Employment

In the three years to March 1982 - ie close to the present Government's period of office - the number of persons in employment have declined by 195,000 (9.5%) in Scotland, and by 1,850,000 (9.2%) in England and Wales. (These figures exclude the self-employed, for which data are not available.)

Job losses have been relatively greater for male employees, the number of whom fell by 10.7% (10.8% in England and Wales) over the period, while female employees fell by 7.9% (6.9% in England and Wales). Consequently the ratio of females to males in employment has risen to 0.76 (0.73).

Analysis of the quarterly data shows that the worst phase of job losses occurred in the period June 1980 - June 1981, when total employees fell by 105,000 in Scotland and by 1,181,000 in England and Wales. Subsequently the rate of loss has slowed down, but the most recent data do not yet indicate a stabilisation of employment levels; in the most recent quarter (December 1981 to March 1982) employment fell by 1.65%, though part of this fall can be attributed to seasonal factors.

At least part of the relatively greater fall in male employment may be explained by the sectoral distribution of job losses. Manufacturing industries and construction, in which there is a heavy concentration of male employment, have suffered worst, while sectors in which there is substantial female employment, including services and public administration, have lost a relatively small number of jobs. Employment by sector is shown in Table 2. In the year to March 1982 job losses have been substantial in all categories of manufacturing industry except metal manufacturing, which in employment terms is the smallest in Scotland of the six groups of manufacturing industries recorded in the table.

TABLE 2 EMPLOYEES IN EMPLOYMENT BY INDUSTRY IN SCOTLAND¹

	EMPLOYMENT IN MARCH 1982		% CHANGE IN EMPLOYMENT IN EACH INDUSTRY	
	NO (000's)	% OF TOTAL	FROM DEC, 1981	FROM MARCH, 1981
Agriculture, Forestry & Fishing	43	2.3	0	- 4.4
Mining & Quarrying	41	2.2	0	- 2.4
Food, Drink, Tobacco	75	4.0	- 5.1	- 7.4
Coal, Petroleum & Chem. Products	29	1.6	- 3.3	- 6.5
Metal Manufacture	27	1.5	0	- 3.6
Engineering & Allied Industries	190	10.3	- 1.6	- 7.3
Textiles, Leather & Clothing	67	3.6	- 2.9	- 6.9
Other Manufacturing	75	4.0	0	- 6.3
Construction	131	7.1	- 2.2	- 10.9
Gas, Electricity & Water	28	1.5	0	- 3.4
Transport & Communication	123	6.6	- 0.8	- 3.9
Distributive Trades	217	11.7	- 4.0	- 2.3
Financial, Professional Services	659	35.6	- 0.9	- 1.9
Public Administration & Defence	148	8.0	- 0.7	0
TOTAL	1,853	100	- 1.6	- 3.9

¹Figures are rounded to the nearest thousand.

Source: Department of Employment Gazette

Whether or not the bottom of the recession has been reached, has been passed or, like a mirage remains tantalisingly out of reach, unemployment continues its upward trend. Table 3 records the most recent unemployment data, for July 1982 and, for comparative purposes the corresponding figures for March in each year 1979 to 1982.

In the three years from March 1979, seasonally adjusted unemployment has risen from 170,300 to 305,900, an increase of 135,600. This compares with a fall of 195,000 in the number of employees in employment over the same period, and implies a fall of around 60,000 in the labour force (though the unemployment data quoted excluded registered school-leavers, the number of whom rose by 11,677 over the same period). It is known however that not all those unemployed and willing to work register as unemployed, and there are no comparable data on the self-employed, so that the apparent decline in the labour force must be viewed with caution.

The seasonally-adjusted unemployment rate reached 14.2% in July, continuing the increase of just over 0.1% per month which has occurred throughout the past twelve months or so. The Scotland/UK relative (Scottish unemployment rate divided by UK unemployment rate) declined further to 115 in July, indicating a somewhat greater rate of increase in unemployment in the rest of the UK in the past month. To express this in a different way, unemployment in Scotland is 15% above the national average.

Table 4 compares unemployment and vacancies in the regions of the UK. In terms of unemployment Scotland occupies the median position - five regions have higher rates, and five lower rates - whilst in relation to vacancies Scotland has the fourth lowest unemployment/vacancies ratio, with approximately twenty-four persons unemployed per vacancy notified. Scotland was only one of two regions in which the unemployment/vacancies ratio declined in the quarter to July 1982, and the overall (UK) ratio increased slightly. While total vacancies notified increased (by just under 2,000), the level and trends in this statistic do not encourage belief in improved labour market conditions in the near future.

A slight improvement in labour demand conditions is reflected in the most recent statistics of short-time and overtime working, reinforcing an earlier trend noted in the last issue of this Commentary. The seasonally-adjusted data in Table 5 show a fairly sharp fall in the number of operatives on short-time, and a small increase in the number on overtime, and support other evidence quoted above that the worst period of the current recession was mid-1980 to mid-1981. On a more pessimistic note, however, the fall in the number of operatives on short-time may reflect the "shake-out" of labour which is taking place, ie many of those on short-time have lost their jobs.

There has been recently discussion of limiting or banning overtime working as a means of creating jobs. Reflection on the practical difficulties involved, together with the probably strong opposition of employers and many of those who presently benefit from overtime working, suggest that there would be severe difficulties in introducing such a scheme. Moreover its potential employment effects are less significant than might be popularly supposed. For instance, last March (the latest month for which data are available) an estimated weekly total of 950,000 hours overtime were worked in Scotland. If converted into full-time job equivalents, this total would

TABLE 3 UNEMPLOYMENT IN SCOTLAND

	TOTAL UNEMPLOYED	SCHOOL LEAVERS	SEASONALLY ADJUSTED UNEMPLOYED	SEASONALLY ADJUSTED UNEMPLOYMENT RATE	SCOTLAND/UK* RELATIVE UK = 100
March 1979	182,997	8,344	170,300	7.7	140
March 1980	200,124	8,405	185,000	8.2	141
March 1981	287,243	15,870	264,300	11.8	119
March 1982	333,050	20,021	305,900	13.7	116
July 1982	348,831	34,832	316,000	14.2	115

*The Scotland/UK relative measures proportionate differences in unemployment. It is defined as the percentage ratio of the Scottish seasonally adjusted unemployment rate to that of UK.

Source: Department of Employment

**TABLE 4 REGIONAL UNEMPLOYMENT AND VACANCIES, IN UK
AT JULY 1982**

	UNEMPLOYED¹ (000'S)		UNEMPLOYMENT¹ RATE (%)		VACANCIES² (000'S)		UNEMPLOYMENT² VACANCIES RATIO	
	APRIL 1982	JULY 1982	APRIL 1982	JULY 1982	APRIL 1982	JULY 1982	APRIL 1982	JULY 1982
South-East	663.9	675.5	8.8	9.0	41.6	42.3	16.0	16.0
East-Anglia	69.6	70.8	9.8	10.0	4.7	3.8	14.8	18.6
South-West	171.9	174.8	10.3	10.5	9.7	9.9	18.9	17.7
West Midlands	330.8	339.0	14.5	14.8	6.4	7.0	51.7	48.4
East Midlands	169.2	175.6	10.5	10.9	7.1	6.8	23.8	25.8
Yorks & Humber	257.8	264.7	12.4	12.8	7.0	6.7	36.8	39.5
North-West	409.2	417.0	14.6	14.8	10.2	10.4	40.1	40.1
North	202.6	211.2	15.2	15.9	5.2	4.7	39.0	44.9
Wales	161.9	163.7	15.2	15.4	5.9	5.6	27.4	29.2
Scotland	308.9	316.0	13.8	14.2	12.1	13.2	25.5	23.9
Great Britain	2,744.3	2,816.3	11.8	12.1	108.8	110.4	25.2	25.5
N. Ireland	106.1	110.1	18.5	19.2	0.8	1.0	132.6	110.1
UK	2,850.4	2,926.4	11.9	12.3	109.6	111.4	26.0	26.3

1 Seasonally adjusted, excluding school leavers

2 Seasonally adjusted, excluding vacancies notified to careers offices.

Source: Department of Employment Press Notices

yield 23,800 jobs, which would reduce the unemployment rate from 14.9% to 13.8%, hardly a dramatic impact. In reality, only a proportion of existing overtime could be converted into extra employment. Only in firms in which a sufficient volume of overtime was regularly worked, and in which the skills required could be offered by persons currently unemployed (and available at the desired location) is the substitution of overtime for regular additional employment a practical proposition. Further study and debate of this issue is worthwhile, but *prima facie* its potential impact on the current unemployment problem would appear to be very limited.

TABLE 5 SHORT-TIME AND OVERTIME WORKING IN SCOTLAND

4-QUARTER MOVING AVERAGE ENDING		NO OF OPERATIVES ON SHORT-TIME ('000)	NO OF OPERATIVES ON OVERTIME ('000)
March	1980	8.6	149.8
June	1980	11.9	140.2
September	1980	16.0	138.4
December	1980	21.3	122.7
March	1981	26.5	112.3
June	1981	28.3	105.3
September	1981	24.7	103.0
December	1981	18.7	103.1
March	1982	12.9	105.8

Source: Department of Employment

Regional Review

In July, unadjusted unemployment in Scotland stood at 348,831, equivalent to 15.6% of the Scottish workforce. Thus, over the previous quarter, total unemployment rose by 17,593 or 0.8%. Strathclyde region accounted for over half of this increase, causing its total unemployment figure to climb to almost 200,000 and its unemployment rate to 18.1%. A contributory factor in this change has been the influx of school-leavers to the job market this quarter as a consequence of Scottish school-leaving arrangements. Under present economic conditions, however, there is every likelihood that, for many of these young people, their stay on the unemployment register will be a lengthy one, punctuated only by brief spells on government schemes. Strathclyde's unemployment rate was exceeded only by the 24.4% registered by the Western Isles which also sustained the greatest actual increase of 3.6 percentage points. The Borders, Highland and Shetland all recorded marginal falls in total unemployment over the quarter, probably as a result of seasonal and oil-related factors. In Shetland's case, the effect on its unemployment rate was negligible.

Table 1 contains the regional unemployment estimates and also vacancy figures for July and April. Although half of the regions showed some increase in notified vacancies over the quarter, the levels remain relatively low. With many regions recording above average increases in unemployment and with further job losses in some regions already in the pipeline, the immediate unemployment priority facing most regions over the coming months is one of containment rather than improvement.

From Table 2, it appears that the actual range between the top and bottom regions, ranked in terms of total unemployment rates, has widened during the recession. In July 1979, the spread of unemployment rates was 9.1 percentage points, from Western Isles with 12.3% to Shetland with 3.2%. By July 1982, the difference was 17.7 percentage points, from 24.4% in the Western Isles to 6.7% in Shetland. However, the relatively small size of the island regions renders them more liable to large fluctuations in monthly unemployment rates, for, clearly, the closure of just one firm will have more effect on their unemployment rate than would be the case for larger regions. Taking therefore only the mainland regions, the actual range of unemployment rates still widened during the recession, although to a lesser degree (from 6.6 percentage points in July 1979 to 9.4 percentage points in July 1982). The last column of Table 2 indicates, however, that the regions which entered the recession in apparently more favourable positions have been those which, in general, have sustained the largest percentage increases in total unemployment. In other words, there seems to have been a "catching-up" of unemployment rates, resulting in a narrowing of differentials over the period.

REGIONAL DEVELOPMENT GRANTS

In the quarter ending 30 June 1982 Scotland received development grants totalling £22.1m. This represents 23% of the UK total allocated in the second quarter of 1982. The areas which received the largest awards included Fort William, Glenrothes, Kilwinning and Motherwell. This figure

**TABLE 1 UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES
NOTIFIED BY SCOTTISH REGIONS, JULY 1982**

	TOTAL UNEMPLOYMENT		UNEMPLOYMENT RATE %		VACANCIES	
Borders	3,442	(3,475)	8.8	(8.9)	241	(255)
Central	18,253	(16,932)	15.4	(14.3)	684	(557)
Dumfries & Galloway	8,083	(7,723)	14.5	(13.8)	278	(257)
Fife	19,507	(17,902)	14.3	(13.1)	612	(694)
Grampian	16,183	(15,372)	8.7	(8.3)	2,546	(1,195)
Highland	10,454	(10,519)	13.2	(13.3)	890	(848)
Lothian	45,012	(42,905)	13.1	(12.5)	1,775	(1,969)
Strathclyde	199,770	(189,256)	18.1	(17.2)	5,646	(5,999)
Tayside	24,714	(24,083)	14.3	(13.9)	1,202	(653)
Western Isles	2,019	(1,728)	24.4	(20.8)	77	(80)
Orkney	806	(752)	13.1	(12.2)	32	(43)
Shetland	588	(591)	6.7	(6.7)	61	(90)
SCOTLAND	348,831	(331,238)	15.6	(14.8)	14,044	(13,410)

Figures for April 1982 are in brackets. Unemployment totals and rates include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices and the Employment Services Division. Since double-counting occurs vacancy figures have to be viewed as slight overestimates in most regions.

Source: Manpower Services Commission

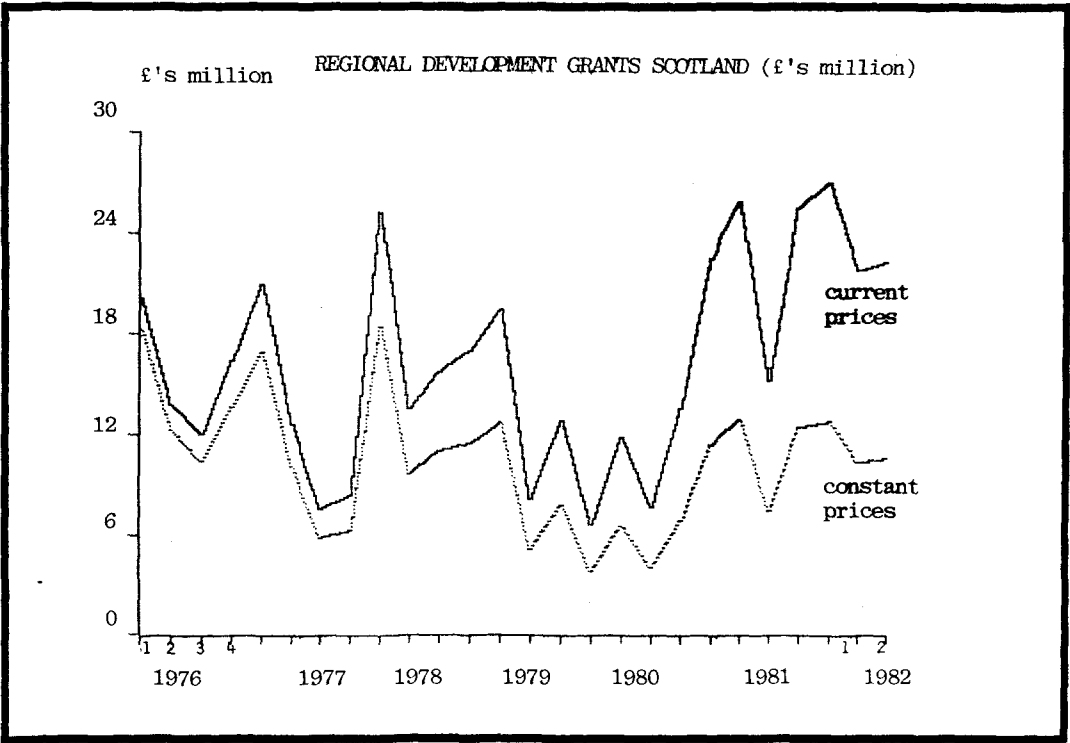
**TABLE 2 TOTAL UNEMPLOYMENT RATES, SCOTLAND AND THE REGIONS,
JULY 1979 AND 1982**

	TOTAL UNEMPLOYMENT RATES (%)		ACTUAL CHANGES IN UNEMPLOYMENT RATES	PERCENTAGE CHANGES IN UNEMPLOYMENT RATES
	JULY 1979	JULY 1982	JULY, 1979 - JULY, 1982	JULY, 1979 - JULY, 1982
Western Isles	12.3	24.4	+ 12.1	+ 98.4
Strathclyde	10.1	18.1	+ 8.0	+ 79.2
Highland	8.7	13.2	+ 4.5	+ 51.7
Dumfries & Galloway	8.3	14.5	+ 6.2	+ 74.7
Fife	8.1	14.3	+ 6.2	+ 76.5
Tayside	8.0	14.3	+ 6.3	+ 78.8
Central	7.1	15.4	+ 8.3	+ 116.9
Lothian	6.7	13.1	+ 6.4	+ 95.5
Orkney	6.1	13.1	+ 7.0	+ 114.8
Grampian	4.7	8.7	+ 4.0	+ 85.1
Borders	3.5	8.8	+ 5.3	+ 151.4
Shetland	3.2	6.7	+ 3.4	+ 106.3
SCOTLAND	8.3	15.6	+ 7.3	+ 88.0

Source: Manpower Services Commission

of £22.1m represents an increase of £0.5m over the last quarter and is a substantial increase over the corresponding quarter in 1981.

Strathclyde received aid to another employment creation last month when the European Regional Development Fund allocated £3.86m to the region rundown shipbuilding areas. The government is to top-up this amount to a total of £5.79m. The money is to be used to improve rundown urban and industrial areas, to prepare sites, convert disused industrial buildings, modernise premises for small and medium-sized businesses and for other minor works. In addition to this the region will receive £4m from the Community as assistance to areas affected by steel closures.



Source: British Business

Outlook and Appraisal

The outlook for the Scottish, and indeed British, economy is not encouraging. The figures of industrial output for June record a fall of 1.5%, suggesting that the nascent recovery in output experienced earlier this year is in need of intense incubation. Both domestically and internationally there appears to be little sign of policies designed to assist any such incubation.

As the 'World' section explains, events in the United States economy are pivotal in bringing the western industrialised economies out of the recession. Yet despite official optimism as to the timing and extent of recovery in the US, many businessmen, financiers and independent commentators sense that any recovery will be tenuous and extremely vulnerable to surprise developments. In addition, internal pressures may well push the US and other major economies towards protectionism with a consequential decline in international trade. With US interest rates so high and President Reagan seemingly unable to control the size of the budget deficit, it would be foolish for European governments to rely on America to pull their economies out of their present difficulties.

In the absence of significant world growth, it is difficult for an open economy such as Britain to buck the trend. Yet, despite this, exports are seen by many as a means by which the UK economy can be recussitated. As argued in the 'UK' section, the use of exchange and interest rate policy to stimulate export demand takes a considerable period to be effective. Further, given the size of the UK's trade surplus, international opinion is unlikely to take kindly to British attempts to reduce the sterling exchange rate. In any case, a substantial decrease would feed its way into inflation before it provided exporters with the stimulus they seek. Reliance on trade to boost domestic economic activity is only feasible in a conducive international environment. With most major economies in recession, it is impossible for them all to simultaneously hold down domestic demand while expanding exports.

Other components of demand are also unlikely to provide the stimulus needed by the economy. The relaxation of HP controls will provide only a small boost to consumption, with imports accounting for a significant proportion in any case. Investment in manufacturing industry, if the CBI survey is to be believed, is unlikely to increase significantly from the low levels of recent quarters. Government spending, particularly capital spending, is unlikely to increase and indeed it is possible that further reductions will be instigated. The most volatile component of demand throughout this recession has, however, been the level of stocks. They now appear to have stabilised, but at a lower stock/output ratio than has previously been experienced. As explained in the 'UK' section this is potentially dangerous, reducing the ability of businesses to respond to increases in orders. Yet given the low level of business confidence it is unlikely that they will recover spontaneously. It may be worth the government considering fiscal incentives by which industry would be encouraged to hold a higher level of stocks than currently prevails. This would not only provide an immediate, much needed, stimulus to demand, but would also place British industry in a better position to respond to any pre-election tax cuts.

QUARTERLY ECONOMIC FORECASTS

The recent sharp fall in UK industrial production suggests an even slower recovery than was previously envisaged. Manufacturing output will only expand very slowly through the remainder of 1982 and the beginning of 1983. Manufacturing employment will therefore decline more rapidly, falling below 450,000 during the third quarter. Unemployment will grow slightly less rapidly than was previously forecast, however, as a result of the government's special schemes to occupy the unemployed and as a consequence of increasing numbers of discouraged individuals voluntarily withdrawing from the labour market.

	1982			1983		
	2	3	4	1	2	3
Manufacturing Output UK (1975 = 100)	88	90	91	91	93	94
Manufacturing Output Scotland (1975 = 100)	90	90	92	92	93	94
Manufacturing Employment Scotland (000's)	458	453	448	448	444	441
Unemployment Scotland (000's)	332	348	344	350	358	362